



1000 Primera Boulevard • Lake Mary, Florida 32746

April 6, 2009

NCUA

Attn: Mary Rupp, Secretary of the Board

1775 Duke Street

Alexandria, VA 22314-3428

RE: Comments on ANPR, 12 CFR Part 704, Corporate Credit Unions

Dear Ms Rupp:

Thank you for the opportunity to provide comments and recommendations regarding the NCUA's advance notice of proposed rulemaking and request for comment concerning the role and structure of the corporate credit unions. I will address each of the six (6) issues which require re-evaluation as outlined in the ANPR.

### **1. The Role of Corporates in the Credit Union System**

*Payment system services: Currently, payment systems offered by corporate are coupled with other services. Should payment services be isolated from other services to separate the risk?*

We recognize that corporate credit unions must engage in other services to generate sufficient income; however, we urge the NCUA to explore structural changes that will place a virtual firewall between payment system services and other services to protect natural person credit unions (NPCUs) from loss of service due to investment losses.

*Liquidity and liquidity management: A vital role of corporates is to fulfill the liquidity needs of their members. Should liquidity be considered a core service of the corporate system? If so, what steps should be taken, and by whom, to preserve and strengthen corporates' ability to offer that service? For example, should NCUA consider limiting a corporate's ability to offer other specific types of products and services in order to preserve and defend the liquidity function?*

Yes. The corporates' community charter has generated too much competition between the corporates, forcing them to seek and develop new lines of business that fall outside of their primary purpose and core competencies. The liquidity function should be the top priority and highest competency for all corporate credit unions.

*Field of membership issues: NCUA's decision to allow corporates to have national fields of membership (FOMs) may have resulted in significant, and unforeseen, risk taking. For example, corporates have competed with each other to offer higher rates, and have done so through the accretion of credit and marketability risk. To address this development, should the agency return to defined FOMs, for example, state or regional FOMs?*

Yes. The corporates have tried to attract NPCUs outside of their original FOM by offering a broad range of services intended to meet all needs. The corporate credit union system should be regional, not national. The footprint of the corporates should cover, but not overlap, the geographies of NPCUs.

*Expanded investment authority: Currently, a corporate meeting the criteria set out under Part One of the expanded authority is allowed to purchase investments with relatively lower credit ratings than otherwise permissible under the rule. Does the need for expanded authorities continue to exist?*

The corporate credit union's expanded authorities should be limited to deter them from "chasing rates" in order to be competitive.

*Should NCUA modify the procedures and qualifications, such as requiring higher capital standards, by which corporates currently qualify for expanded authorities? If so, what should the new standards be? Should NCUA reduce the expanded authorities available? If so, which ones? Alternatively, should any of the limits in existing expanded authorities be reduced or increased?*

No corporate credit union's capital position should be allowed to be lower than that required for NPCUs. In fact, the NCUA's defines well-capitalized as any credit union with 7% or more in capital. This standard should apply to corporate credit unions as well. The limits in existing expanded authorities should be reduced to prevent the corporates' capital position from falling below NCUA standards for NPCUs.

*Once granted, should NCUA require periodic requalification for expanded authorities?*

It is the role of the NCUA to determine whether or not to require periodic requalification for expanded authorities.

## **2. Appropriate capital requirements for corporate credit unions.**

*NCUA is considering revising various definitions and standards for determining appropriate capital requirements for corporate credit unions. For example, the agency could establish a new required capital ratio consisting only of core capital excluding membership capital accounts as a component of regulatory capital; the agency could also determine to increase the required capital ratio to more than four percent.*

We agree that capital requirements for corporate credit unions should be increased to more than four percent to bring the corporate capital requirements more into line with standards applied by other federal financial regulators.

*Should NCUA require a certain level of contributed capital from any NPCU seeking either membership or services from a corporate?*

No. A pay-for-services model should be employed.

*Core capital: Under the current rule, core capital is defined as retained earnings plus paid-in capital. Should NCUA establish a new capital ratio that corporates must meet consisting only of core capital, and if so, what would be the appropriate level to require? What is the correct degree of emphasis that ought to be placed on generating core capital through undivided earnings? Should a corporate be required to limit its services only to members maintaining contributed core capital with the corporate?*

Corporate credit unions should have adequate capital to avoid putting their member natural person credit unions at risk. Paid-in capital accounts should not be included in the ratio, which means corporates will need to develop a plan to reach higher core capital levels solely through earnings within the next three to five years. Corporates should not be required to limit their services to members maintaining contributed core capital. Banks have no such requirement in order to provide services to credit unions; imposing this requirement on corporates places them at a competitive disadvantage.

## **3. Permissible investments**

*Presently, corporates have the authority to purchase and hold investments that would not be permissible for natural person credit unions. This increases a corporate member's exposure to these risks commensurate with their level of investment in the corporate.*

Corporate investment authorities must change if corporate credit unions are to survive. We do not agree with giving corporates the authority to purchase and hold investments that are considered too risky for NPCUs. We believe certain categories of investments and specific investments should be prohibited, including collateralized debt obligations (CDOs), net interest margin securities (NIMs), and subprime and Alt-A asset-backed securities.

#### **4. Credit risk management**

*NCUA is considering curbing the extent to which a corporate may rely on credit ratings for an investment, or require that the lowest rating meet the minimum rating requirements of Part 704. NCUA also solicits comment on whether to require additional stress modeling tools in the regulation to enhance credit risk management.*

We agree that NCUA needs to impose greater risk assessment requirements and additional stress modeling tools to enhance credit risk management. The lowest multiple agency ratings applied to an investment should carry the most weight in assessing the propriety of any given investment.

#### **5. Asset liability management**

*Should NCUA re-instate the requirement that corporate credit unions perform net interest income modeling and stress testing? Or should the agency consider some form of mandatory modeling and testing of credit spread increases? Should corporate be required to use monitoring tools to identify these types of trends?*

Yes, such measures would give NCUA and each corporate credit union a more informed sense of how the corporate investments are performing.

#### **6. Corporate governance**

*NCUA is considering minimum standards for directors that would require a director possess an appropriate level of experience and independence. The agency is also considering term limits, allowing compensation for corporate directors, and requiring greater transparency for executive compensation. We agree that NCUA should establish more stringent minimum qualifications and training requirements for individuals serving as corporate credit union directors.*

*Should NCUA establish a category of "outside director," i.e., persons who are not officers of that corporate, officers of member NPCUs, and/or individuals from entirely outside the credit union industry. Is this approach prudent? If so, should corporates be required to select some minimum or specific number of directors from NPCUs?*

We do not support the concept of "outside directors" for corporates.

*Should term limits be imposed on corporate directors. If so, what should be maximum term be?*

Term limits should not be imposed on corporate directors except as deemed appropriate, advantageous, or necessary by each individual corporate credit union. In addition, we believe care must be taken to avoid unintended consequences if term limits are to be established. It is important for directors to develop sufficient knowledge and sophistication to provide guidance and experienced judgment in governing the corporate credit union.

*Should corporate directors be compensated? Should such compensation be limited to outside directors only?*

The credit union movement has at its foundation volunteer boards of directors. This paradigm should be preserved at all levels, from wholesale to retail to natural person credit unions. We do not believe that paying directors would necessarily ensure quality governance.

*Should NCUA allow members of corporate credit unions greater access to salary and benefit information for senior management?*

No. Executive compensation is a matter of internal governance for each credit union. It is important for corporate credit unions to provide their member credit unions with in-depth reporting of monthly financials and their risk position, but not day-to-day governance such as executive compensation.

We appreciate the opportunity to comment and share our views on this ANPR. We anticipate and look forward to continuing dialogue as regulations and rules are proposed, developed, and implemented over time. If you have any questions about our recommendations, please contact me directly via email at [jmelbourne@mycfe.com](mailto:jmelbourne@mycfe.com) or by phone at 407-896-9411, ext. 2219.

Sincerely,

A handwritten signature in black ink, reading "Joseph A. Melbourne, Jr." with a stylized flourish at the end.

Joseph A. Melbourne, Jr.  
President and CEO